



*State of Michigan*  
*Comprehensive Annual Financial Report*

Fiscal Year Ended September 30, 2008

**JENNIFER M. GRANHOLM**  
Governor

**ROBERT L. EMERSON**  
State Budget Director

**MICHAEL J. MOODY, CPA**  
Director  
Office of Financial Management

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JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF THE STATE BUDGET  
LANSING

ROBERT L. EMERSON  
DIRECTOR

December 31, 2008

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature  
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2008.

### **INTRODUCTION TO THE REPORT**

**Responsibility:** The Office of the State Budget, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

**Adherence to Generally Accepted Accounting Principles:** As required by State statute, we have prepared the financial statements contained in the SOMCAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

**Report:** The SOMCAFR is divided into four major sections: introductory, financial, statistical, and other information:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.
- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.
- The other information section includes General Fund and Special Revenue Funds revenue and expenditure schedules and General Fund source and disposition of spending authorization schedules.

**Internal Control Structure:** The Office of the State Budget is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State of Michigan Deferred Compensation Funds, the State of Michigan Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies.

The Management and Budget Act requires each principal department to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The discretely presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

**Internal Auditors:** Pursuant to Executive Order 2007-31, the Office of the State Budget provides internal audit services to executive branch departments and agencies. Office of the State Budget internal audit staff perform periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, Office of the State Budget internal audit staff also review department and agency management's processes for establishing, monitoring, and reporting on internal controls; advise department and agency management on internal control matters; and assist department and agency management with investigations of alleged fraud or other irregularities.

**Independent Auditors:** The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and 10 of the State's universities), the larger pension and other employee benefit trust funds, and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2008 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2008 are fairly presented in accordance with GAAP and issued unqualified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act Amendments of 1996. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies and component unit authorities, and result in separately issued audit reports.

**Management's Discussion and Analysis (MD&A):** GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

## **PROFILE OF THE GOVERNMENT**

Michigan was admitted to the Union as the 26<sup>th</sup> state in 1837. The State is governed under the Constitution of 1963, as amended.

**Executive Branch:** The Executive Branch consists of 18 principal departments. Fifteen principal departments are headed by commissions and/or directors appointed by the elected governor. Elected officials head two principal departments, Attorney General and State, and one, Education, is headed by an elected board.

**Judicial Branch:** The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the State. The Supreme Court also establishes rules for practice and procedure in all courts.

**Legislative Branch:** The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations.

**Reporting Entity:** The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

**Budgetary Reporting and Control:** For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue and permanent funds), the State budget projects revenues and expenditures and calculates fund balances for budgetary purposes in accordance with GAAP. Public Act 431 of 1984, as amended, prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the

publication of the SOMCAFR, the State releases a Statewide Authorization Dispositions report that provides line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

## **MAJOR INITIATIVES AND FUTURE PROJECTS**

**A Job For Every Worker:** Rebuilding Michigan's economy requires continued efforts to diversify into new sectors where Michigan has a natural advantage, including alternative energy, life sciences, advanced manufacturing and homeland security. We must continue to ensure that workers have the skills they need to be competitive by providing access to education and training. And we must ensure that we can compete with other states and nations for jobs and investment by expanding our economic development toolbox.

Michigan's \$2 billion 21<sup>st</sup> Century Jobs Fund, our new Centers of Energy Excellence program and a host of new economic development tools brought more than \$5 billion in investment to Michigan this year, creating thousands of new jobs.

In fiscal year 2009, an additional \$15 million in state funding was added to the federal funding for No Worker Left Behind, an innovative program to help displaced workers connect to new careers by providing free training. Through November 2008, the program has enrolled more than 50,000 participants in training in high-demand fields.

**Health Care for Every Family:** During fiscal year 2008, the two departments primarily responsible for providing services to Michigan's most vulnerable citizens, the Department of Human Services and the Department of Community Health, saw the demand for their services increase as the economy grew more challenged. Despite a tight budget, no eligible citizen was denied health care, despite an increase in the average number of citizens eligible for Medicaid services of 43,000 per month.

In addition, more than 500 nursing home residents were transitioned back to community living as a result of the state's efforts to reform the long-term care system.

**Quality Education for Every Child:** The State is committed to providing every child with a quality education. As the foundation of our economic plan, over \$15.5 billion or 34.8% of the State's total fiscal year 2009 budget is devoted to educating Michigan's citizens through its public schools, community colleges, and universities.

The School Aid Budget, totaling \$13.4 billion, reflects the commitment to provide all students in the K-12 education system with the tools they need to succeed in a global economy. For fiscal year 2009, the minimum foundation allowance was increased to \$7,316 per pupil and an additional \$10 million was provided to make quality preschool accessible to more children.

The fiscal year 2009 budget also provided funding for the 21<sup>st</sup> Century Schools Fund to help Michigan school districts replace large, impersonal high schools that have low academic achievement and high dropout rates, with small high schools that use relationships, discipline, and relevance to help at-risk kids achieve.

To help make Michigan competitive, the fiscal year 2009 budget continues to invest in one of the state's largest economic catalysts – our universities. State colleges and universities will receive \$2.1 billion. In addition, more than \$230 million in grants and scholarships were made available to assist students in paying for higher education.

**Efficient and Effective Government:** During fiscal year 2008, the Granholm Administration continued their efforts to streamline government, reduce costs and improve efficiency. Through Executive Directive in 2007, Governor Granholm set a goal of reducing energy usage at state facilities by 10 percent by the end of 2008. Already, the state has reduced energy usage by nearly 18 percent, saving \$21 million. The state has also joined the Climate Savers Computing Initiative to reduce energy usage by the state's 55,000 desktop computers and 3,700 servers, saving an additional \$1 million.

Additional technology usage is improving customer service, reducing permitting time and saving the state money. The new CHAMPS and BRIDGES databases for Medicaid and cash assistance programs, respectively, will help improve data collection and sharing, reduce paperwork and speed eligibility determination. In addition, a new web portal in the Department of Treasury helps local units of government file audit information easier and quicker while new technology at the Department of Agriculture has reduced permitting time for businesses including grocery stores, restaurants and gas stations by 50 percent.

## **AWARDS AND ACKNOWLEDGEMENTS**

**Certificate of Achievement:** The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2007. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 21 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments:** The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the chief financial officers, chief accountants, internal auditors



and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Emerson".

Robert L. Emerson  
State Budget Director

A handwritten signature in black ink, appearing to read "Michael J. Moody".

Michael J. Moody, CPA  
Director, Office of Financial Management

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2007

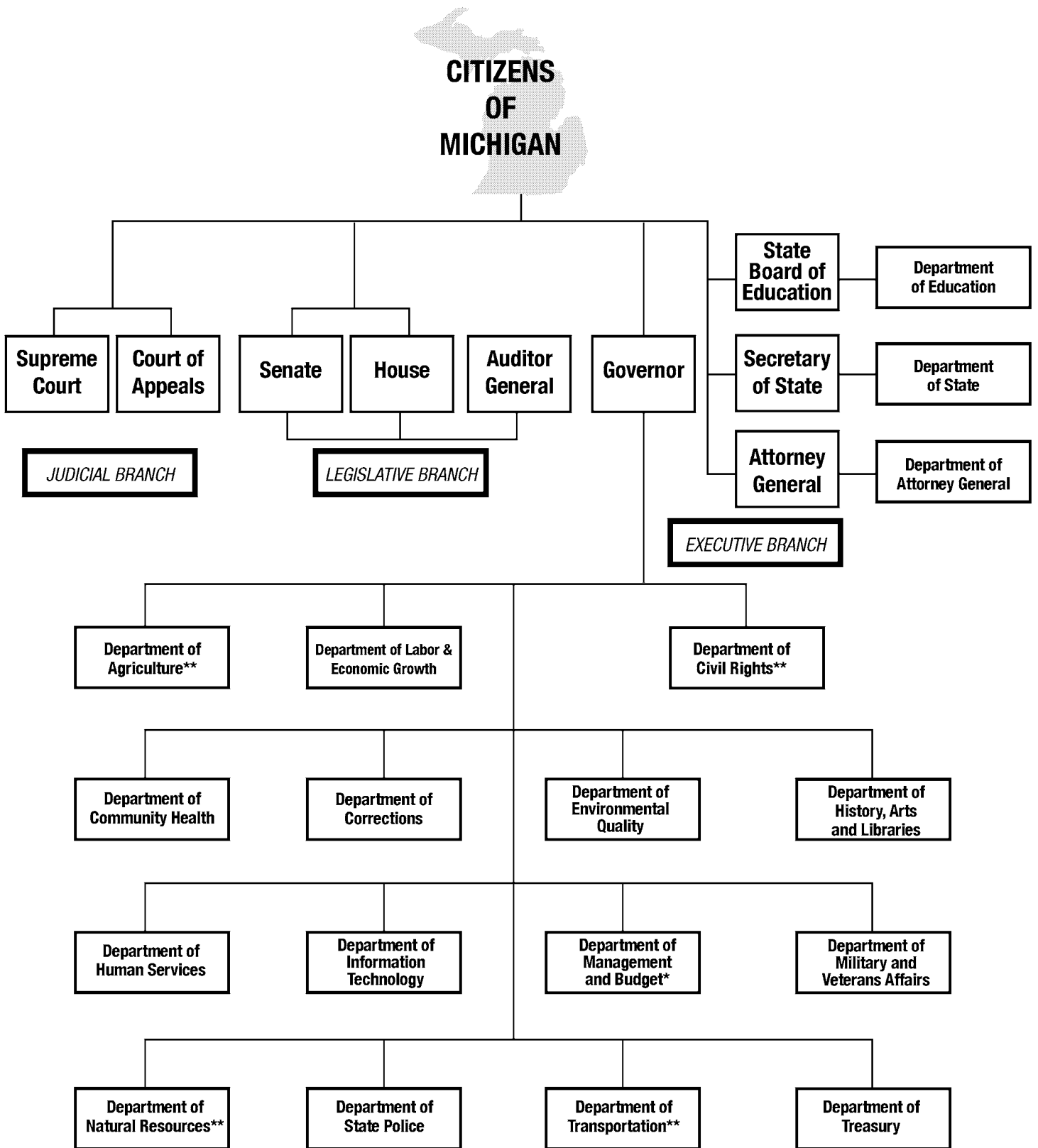
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



\* Includes Civil Service Commission appointed by Governor

\*\* Has Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN  
PRINCIPAL STATE OFFICIALS

**JUDICIAL BRANCH**

Supreme Court Justices  
Honorable Clifford W. Taylor, Chief Justice  
Honorable Michael F. Cavanagh, Justice  
Honorable Maura D. Corrigan, Justice  
Honorable Marilyn Kelly, Justice  
Honorable Stephen J. Markman, Justice  
Honorable Elizabeth A. Weaver, Justice  
Honorable Robert P. Young, Jr., Justice

**LEGISLATIVE BRANCH**

Honorable Michael D. Bishop  
Majority Leader of the Senate  
  
Honorable Andy Dillon  
Speaker of the House of Representatives  
  
Thomas H. McTavish  
Legislative Auditor General

**EXECUTIVE BRANCH**

Honorable Jennifer M. Granholm, Governor  
  
Honorable John D. Cherry, Jr., Lt. Governor  
  
Honorable Mike Cox, Attorney General  
  
Honorable Terri Lynn Land, Secretary of State

State Board of Education  
Kathleen N. Straus, President  
John C. Austin  
Elizabeth W. Bauer  
Carolyn L. Curtin  
Nancy Danhof  
Marianne Yared McGuire  
Reginald M. Turner  
Casandra E. Ulbrich  
Honorable Jennifer M. Granholm (Ex Officio)  
Michael P. Flanagan  
Superintendent of Public Instruction  
  
Michigan Commission of Agriculture  
James E. Byrum, Chair  
Donald M. Coe  
Ann Jousma-Miller  
Dale N. Norton  
Todd J. Regis  
Donald W. Koivisto, Director, Department of Agriculture  
  
Civil Rights Commission  
Kelvin W. Scott, Chair  
Mohammed Abdrabboh  
Mark Bernstein  
Lisa Peebles-Hurst  
Karen Henry Stokes  
Matthew Wesaw  
J. Michael Zelley  
Vacant  
Linda V. Parker, Director, Department of Civil Rights  
  
Civil Service Commission  
Andrew P. Abood  
Kelly G. Keenan  
Sherry L. McMillan  
Thomas M. Wardrop  
Janet McClelland, Acting State Personnel Director  
  
Janet Olszewski, Director  
Department of Community Health  
  
Patricia L. Caruso, Director  
Department of Corrections  
  
Steven E. Chester, Director  
Department of Environment Quality

William A. Anderson, Director  
Department of History, Arts and Libraries  
  
Ismael Ahmed, Director  
Department of Human Services  
  
Kenneth D. Theis, Director  
Department of Information Technology  
  
Stanley Pruss, Director  
Department of Labor & Economic Growth  
  
Lisa Webb Sharpe, Director  
Department of Management and Budget  
  
Robert L. Emerson, State Budget Director  
Office of the State Budget  
  
Major General Thomas G. Cutler, Director  
Department of Military and Veterans Affairs  
  
Natural Resources Commission  
Keith J. Charters, Chair  
Mary C. Brown  
Hurley J. Coleman, Jr.  
Darnell Earley  
John M. Madigan  
J. R. Richardson  
Franklin C. Wheatlake  
Rebecca A. Humphries, Director  
Department of Natural Resources  
  
Colonel Peter C. Munoz, Director  
Department of State Police  
  
Transportation Commission  
Ted B. Wahby, Chair  
Linda Miller Atkinson  
Maureen Miller Brosnan  
Steven K. Girard  
Jerrold M. Jung  
James S. Scalici  
Kirk T. Steudle, Director  
Department of Transportation  
  
Robert J. Kleine, State Treasurer



## **II. FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
BASIC FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION**



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, State of Michigan Deferred Compensation Funds, State Police Pension Benefits Fund, State Police Other Postemployment Benefits Fund, State Employees' Pension Benefits Fund, State Employees' Other Postemployment Benefits Fund, Public School Employees' Pension Benefits Fund, Public School Employees' Other Postemployment Benefits Fund, Judges' Pension Benefits Fund, Judges' Other Postemployment Benefits Fund, State of Michigan Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Farm Produce Insurance Authority, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan State Hospital Finance Authority, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental activities	1.5%	0.4%
Business-type activities	94.1%	84.9%
Aggregate discretely presented component units	92.7%	93.7%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	93.8%	75.4%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature  
Page 2

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 6 and 23 to the basic financial statements, the State of Michigan replaced its Single Business Tax with the Michigan Business Tax. The State has not fully estimated the amount of future collections and refunds related to the Michigan Business Tax because the necessary data is not available.

As discussed in Note 4 to the basic financial statements, the State adopted Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

The management's discussion and analysis on pages 5 through 13, budgetary comparison schedules and corresponding notes on pages 100 through 103, and information about infrastructure assets reported using the modified approach on pages 104 and 105 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory, statistical, and other information sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General  
December 31, 2008





## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

### HIGHLIGHTS

#### **Government-wide**

- At September 30, 2008, the State's assets exceeded its liabilities by \$15.7 billion.
- The State's unrestricted net assets were (\$2.9) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- Revenues of \$47.3 billion, along with beginning net assets, supported expenses of \$47.8 billion during fiscal year 2008. As a result, the State's total net assets decreased by \$495.8 million (3.1 percent). The decrease relates mostly to continued high unemployment expenses reported in the business activities. In addition, the State began reporting other postemployment benefit obligations which totaled \$609.5 million at the end of the fiscal year.

#### **Fund Level**

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.9 billion. Of this amount, \$1.1 billion is *unreserved fund balance* in the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds and, therefore, available to fund general-purpose expenditures of those funds in future years. The remaining \$2.8 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund (BSF), and the School Aid Fund (SAF), closed the fiscal year with a combined total fund balance of \$1.5 billion. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$457.9 million and \$2.2 million, respectively. In addition, another \$833.1 million is reserved for specific purposes such as multi-year projects and restrictively financed programs. In the School Aid Fund, the entire fund balance of \$254.6 million is reserved for specific purposes.
- The State's proprietary funds reported net assets at year-end of (\$48.3 million). This represents a decrease of \$412.2 million (113.3 percent) compared to the prior year-end, mostly resulting from the increase in unemployment benefits paid from the Michigan Unemployment Compensation Funds.

#### **Long-term Debt**

- The State's total long-term debt (bonds and notes payable) as of September 30, 2008, was \$8.2 billion, a slight increase of \$1.5 million from the prior year. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 8.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### **Government-wide Statements (Reporting the State as a Whole)**

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 16 and 17) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or declining.

The Statement of Activities (pages 18 and 19) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 18 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 23 and 25) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g. land, buildings, and infrastructure)	No	Yes
Liability for earned but deferred revenue	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Net pension assets in excess of the annual required contribution	No	Yes
Deferred charges for debt issuance costs	No	Yes
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e. claims and judgments, compensated absences, and net pension obligations)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned deferred revenue	Yes	Yes

## Michigan

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financial sources, uses, and expenditures resulting from debt issuance	Yes	No
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts, and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 42 of this report.

### Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 22 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 108 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- **Governmental funds** - Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- **Proprietary funds** - When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs - such as risk management and state sponsored group insurance activities. Internal service funds are reported as governmental activities on the government-wide statements.

- *Fiduciary funds* - The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 34. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

#### Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

#### Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$495.8 million (3.1 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$83.6 million (0.5 percent) and business-type activities had a decrease of \$412.2 million (113.3 percent).

#### Statement of Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
Current and other non-current assets	\$11,053.3	\$10,297.2	\$ 838.4	\$ 1,276.4	\$11,891.6	\$11,573.6
Capital assets	19,839.2	19,436.6	.8	.4	19,840.0	19,437.0
<b>Total assets</b>	<b>30,892.4</b>	<b>29,733.8</b>	<b>839.2</b>	<b>1,276.8</b>	<b>31,731.6</b>	<b>31,010.6</b>
Current liabilities	4,957.3	4,658.4	247.2	594.9	5,204.5	5,253.4
Long-term liabilities	10,214.5	9,271.2	640.3	318.0	10,854.7	9,589.2
<b>Total liabilities</b>	<b>15,171.8</b>	<b>13,929.6</b>	<b>887.5</b>	<b>912.9</b>	<b>16,059.3</b>	<b>14,842.5</b>
Net assets:						
Invested in capital assets, net of related debt	15,909.3	15,739.1	.8	.4	15,910.1	15,739.5
Restricted	2,599.8	2,292.8	72.7	358.7	2,672.4	2,651.5
Unrestricted	(2,788.4)	(2,227.7)	(121.8)	4.8	(2,910.2)	(2,222.9)
<b>Total net assets</b>	<b>\$15,720.6</b>	<b>\$15,804.2</b>	<b>\$ (48.3)</b>	<b>\$ 363.9</b>	<b>\$15,672.3</b>	<b>\$16,168.1</b>

\* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

The largest component of the State's net assets (\$15.9 billion) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising \$2.7 billion of the total. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were (\$2.9) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

## Michigan

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

### Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

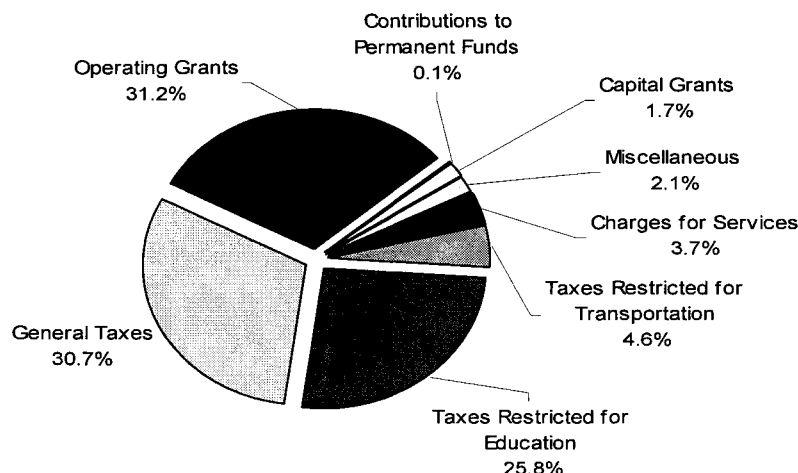
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,562.3	\$ 1,947.0	\$ 5,122.3	\$ 4,876.6	\$ 6,684.7	\$ 6,823.6
Operating grants	12,963.5	12,300.1	44.3	55.8	13,007.8	12,355.9
Capital grants	719.5	627.1	-	-	719.5	627.1
General revenues						
General taxes	13,162.8	12,077.0	13.7	13.1	13,176.4	12,090.1
Taxes restricted for educational purposes	10,884.2	10,456.2	-	-	10,884.2	10,456.2
Taxes restricted for transportation purposes	1,935.0	1,965.3	-	-	1,935.0	1,965.3
Unrestricted investment and interest earnings	7.6	12.1	2.2	5.1	9.8	17.2
Miscellaneous	865.4	1,124.8	-	-	865.4	1,124.8
<b>Total revenues</b>	<b>42,100.4</b>	<b>40,509.5</b>	<b>5,182.5</b>	<b>4,950.6</b>	<b>47,282.8</b>	<b>45,460.0</b>
<b>Expenses</b>						
General government	1,671.9	2,205.7	-	-	1,671.9	2,205.7
Education	15,080.9	14,660.2	-	-	15,080.9	14,660.2
Human Services	4,699.0	4,453.5	-	-	4,699.0	4,453.5
Public safety and corrections	2,895.1	2,583.9	-	-	2,895.1	2,583.9
Conservation, environment, etc.	572.8	597.0	-	-	572.8	597.0
Labor, commerce, and regulatory	995.7	963.4	-	-	995.7	963.4
Health services	11,623.0	10,832.9	-	-	11,623.0	10,832.9
Transportation	3,235.4	3,191.8	-	-	3,235.4	3,191.8
Tax expenditures	931.6	883.4	-	-	931.6	883.4
Intergovernmental - revenue sharing	1,076.4	1,071.1	-	-	1,076.4	1,071.1
Interest on long-term debt	387.8	345.4	-	-	387.8	345.4
Liquor Purchase Revolving Fund	-	-	622.0	602.3	622.0	602.3
State Lottery Fund	-	-	1,636.9	1,654.8	1,636.9	1,654.8
Attorney Discipline System	-	-	5.0	4.3	5.0	4.3
Michigan Unemployment Compensation Funds	-	-	2,403.0	2,012.1	2,403.0	2,012.1
<b>Total expenses</b>	<b>43,169.7</b>	<b>41,788.3</b>	<b>4,666.9</b>	<b>4,273.5</b>	<b>47,836.5</b>	<b>46,061.7</b>
Excess (deficiency) Before Contributions and Transfers	(1,069.3)	(1,278.8)	515.6	677.1	(553.7)	(601.7)
Contributions to permanent fund principal	57.9	26.2	-	-	57.9	26.2
Transfers	927.8	943.5	(927.8)	(943.5)	-	-
<b>Increase (decrease) in net assets</b>	<b>(83.6)</b>	<b>(309.2)</b>	<b>(412.2)</b>	<b>(266.3)</b>	<b>(495.8)</b>	<b>(575.5)</b>
Net assets – beginning – restated	15,804.2	16,113.4	363.9	630.2	16,168.1	16,743.6
Net assets – ending	<b>\$15,720.6</b>	<b>\$15,804.2</b>	<b>\$ (48.3)</b>	<b>\$ 363.9</b>	<b>\$ 15,672.3</b>	<b>\$ 16,168.1</b>

\* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

## Governmental Activities

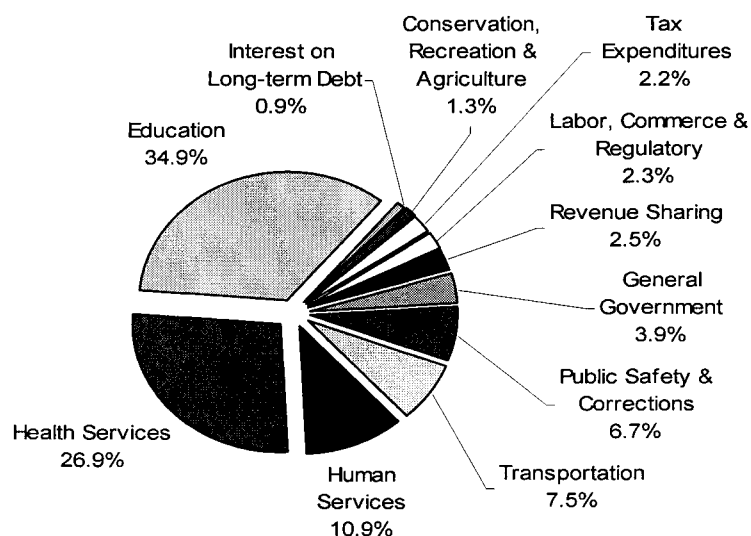
Revenues to fund governmental activities totaled \$42.2 billion for fiscal year 2008. Fund balances and other State assets were also used to support governmental activities. As shown in the accompanying chart, 31.2 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 30.4 percent for educational and transportation purposes. Only 30.7 percent of the revenues were available for general use.

**Revenues - Governmental Activities for  
Fiscal Year Ending September 30, 2008**  
(\$42.2 billion)



Expenses related to governmental activities totaled \$43.2 billion during fiscal year 2008. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health services represent the governmental activities' largest spending categories, accounting for 61.8 percent of the spending.

**Expenses - Governmental Activities for  
Fiscal Year Ending September 30, 2008**  
(\$43.2 billion)



**Business-type Activities**

The business-type activities' net assets decreased by \$412.2 million (113.3 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$417.2 million (127.6 percent).
- The State Lottery Fund's net assets increased by \$4.9 million (15.4 percent), which resulted from fewer prize award expenses during the fiscal year.

**FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

As the State completed the year, its governmental funds reported fund balances of \$3.9 billion. Of this total amount, \$1.1 billion constitutes unreserved fund balance, which is available for appropriation for the general purposes of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The transportation-related funds (\$108.6 million) and the other State funds (\$418.1 million) comprise a significant portion of the unreserved fund balance. Although reported as unreserved fund balances, these amounts are dedicated to those specific funds and can only be used for specific activities. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

**General Fund**

The General Fund is the chief operating fund of the State. At the end of fiscal year 2008, the General Fund unreserved fund balance was \$457.9 million and the reserved fund balance was \$833.1 million. Fund balance increased by \$308.9 million (31.5 percent) as a result of controlled spending and higher than expected general purpose tax revenues.

**General Fund Budgetary Highlights:**

On October 1, 2007, the Governor signed a 30-day continuation budget to allow the Legislature more time to pass individual budgets for fiscal year 2008. As a result, the General Fund original budget was only \$2.5 billion. The Legislature passed full budgets for each state agency and department in late October 2007.

For fiscal year 2008, the Legislature enacted gross appropriations for all funds totaling \$43.9 billion. The general fund-general purpose appropriations totaled \$10.1 billion, which included certain boilerplate appropriations totaling \$100.8 million.

General purpose tax revenues of \$9.6 billion were \$2.8 billion more than the original estimate of \$6.8 billion. A portion of the increase is attributed to the change in the legislation for business taxes. Effective January 1, 2008, the Single Business Tax was replaced by the Michigan Business Tax. The State recognized \$1.6 billion in Michigan Business Tax revenues during fiscal year 2008 in the General Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$159.2 million and restricted revenue authorized, but not spent, of \$9.3 million. At fiscal year-end, excess restricted revenues of \$434.2 million carried forward into fiscal year 2009 and are available upon appropriation.

All agencies finished the year with net lapses. However, State Police reported line item over-expenditures of \$1.4 million.

**School Aid Fund**

Fund balance at September 30, 2008, totaled \$254.6 million, an increase of \$160.6 million from the prior year. Revenues and transfers to the fund totaled \$13.0 billion, up \$143.1 million from the prior year. Beginning in fiscal year 2008, the fund received Michigan Business Tax revenues, totaling \$341.0 million. Expenditures totaled \$12.8 billion, an increase of \$69.1 million over the previous year. The School Aid Stabilization Fund ended the year with \$247.1 million in reserved fund balance.

**Counter-Cyclical Budget and Economic Stabilization Fund**

During the year, the BSF received \$66 thousand in interest earnings. As a result, fund balance increased to \$2.2 million.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets:** At the end of the fiscal year 2008, the State had invested \$19.8 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$184.4 million.

Capital Assets as of September 30  
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,344.2	\$ 3,235.2	\$ -	\$ -	\$ 3,344.2	\$ 3,235.2
Land improvements	88.9	84.0	-	-	88.9	84.0
Buildings and improvements	2,113.1	2,075.0	-	-	2,113.1	2,075.0
Equipment	224.4	199.0	.8	.4	225.2	199.4
Infrastructure	12,895.9	12,814.9	-	-	12,895.9	12,814.9
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	18,686.3	18,427.9	.8	.4	18,687.1	18,428.2
Construction in progress	1,152.9	1,008.8	-	-	1,152.9	1,008.8
Total	<u>\$19,839.2</u>	<u>\$19,436.6</u>	<u>\$ .8</u>	<u>\$ .4</u>	<u>\$19,840.0</u>	<u>\$19,437.0</u>

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,478 lane miles of roads and 4,761 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have more than 70% of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2007, indicated that 83.6% of roads were considered fair or better.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2007) indicated that the condition of the bridges had improved from the condition reported for 2006. For calendar year 2007, 88.6% of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$250.0 million for fiscal year 2009. In addition, \$329.2 million of unspent capital outlay authorizations that existed at September 30, 2008, are available to spend in fiscal year 2009. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

**Long-term Debt:** The State, along with the State Building Authority (SBA) and the Michigan Tobacco Settlement Finance Authority (MTSFA), blended component units of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA or MTSFA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. MTSFA's bonds provided funding to the 21<sup>st</sup> Century Jobs Fund for economic development initiatives and to support General Fund and School Aid Fund programs. More detailed information regarding the State's long-term obligations is presented in Notes 13 and 15 to the financial statements.



## Michigan

### Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the State)	\$1,487.4	\$1,487.5	\$ -	\$ -	\$1,487.4	\$1,487.5
Revenue bonds and notes (backed by specific tax and fee revenues)	6,727.4	6,725.9	-	-	6,727.4	6,725.9
Total	<u>\$8,214.8</u>	<u>\$8,213.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,214.8</u>	<u>\$8,213.3</u>

During the year, the State and the MTSFA issued refunding bonds of \$436.2 million and paid \$361.9 million to a refunded bond escrow agent to cover future debt service payments. In addition, the SBA issued \$96.5 million in new bonds for construction of state and university buildings.

#### **Bond Ratings**

The State's general obligations are rated AA- stable outlook by Standard & Poors and Aa3 stable outlook by Moody's.

#### **Limitations on Debt**

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2008, the State issued and repaid short-term borrowing totaling \$1.4 billion.

### **ECONOMIC CONDITION AND OUTLOOK**

Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. Given weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share, and continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's below average employment performance.

For 2008, Michigan employment is estimated to have declined by 77,000 jobs (1.8 percent) – the eighth straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 520,000 jobs. In contrast, Michigan employment had increased approximately 560,000 jobs above its pre-recession peak by this time after the 1990-1991 recession.

Personal income was up an estimated 1.4 percent and wages and salaries income were essentially flat – up just an estimated 0.1 percent in 2008. Both personal income and wages and salaries failed to keep pace with the increase in consumer prices as measured by the Detroit consumer price index (2.9 percent).

Several factors are weighing on the national economy including sharp declines in the housing market and worsening credit markets. As a result, the U.S. economic growth will remain tepid. Given this, Michigan employment is expected to decline in 2009 – although less so than in 2008, with 2009 employment falling by 1.5 percent. In 2009, Michigan personal income is projected to rise 1.9 percent, while wages and salaries are expected to increase 0.7 percent. With 2.5 percent inflation, real (inflation adjusted) personal income is forecast to increase while real wages and salaries are expected to decline in 2009.

### **CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at [www.michigan.gov/ofm](http://www.michigan.gov/ofm). You can also contact the office by phone at (517) 373-3029.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-3029.





## **II. FINANCIAL SECTION**

### **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 8,463	\$ 8,312	\$ 16,774	\$ 1,036,826
Equity in common cash (Note 5)	1,526,476	61,451	1,587,927	118,965
Taxes, interest, and penalties receivable (Note 6)	5,200,682	-	5,200,682	-
Internal balances	11,613	(11,613)	-	-
Amounts due from component units	3,797	341	4,137	27,717
Amounts due from primary government	-	-	-	191,746
Amounts due from federal government	1,047,956	17,712	1,065,668	30,828
Amounts due from local units	319,271	31,403	350,674	992,200
Inventories	38,735	12,624	51,359	22,675
Investments (Note 8)	311,463	109,162	420,625	1,405,816
Other current assets	557,698	334,199	891,896	545,534
Total Current Assets	9,026,154	563,589	9,589,743	4,372,308
Restricted Assets:				
Cash and cash equivalents	-	-	-	26,647
Investments	-	-	-	429,492
Mortgages and loans receivable	-	-	-	49,946
Taxes, interest, and penalties receivable (Note 6)	325,895	-	325,895	-
Advances to primary government	-	-	-	558,234
Amounts due from federal government	4,061	-	4,061	-
Amounts due from local units	938,566	-	938,566	2,744,959
Mortgages and loans receivable	-	-	-	4,391,192
Investments (Note 8)	667,164	251,479	918,644	2,897,382
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,380,157	-	3,380,157	119,612
Buildings, equipment, and other depreciable assets	5,110,969	4,565	5,115,534	4,730,194
Less accumulated depreciation	(2,441,769)	(3,758)	(2,445,527)	(1,849,231)
Infrastructure	12,636,941	-	12,636,941	102,722
Construction in progress	1,152,866	-	1,152,866	136,462
Total capital assets	19,839,163	807	19,839,970	3,239,757
Interest in joint ventures (Note 7)	32,856	-	32,856	-
Other noncurrent assets	58,557	23,300	81,857	359,968
Total Assets	\$ 30,892,417	\$ 839,175	\$ 31,731,592	\$ 19,069,885
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ 169,336	\$ 5,593	\$ 174,929	\$ 260
Accounts payable and other liabilities	2,654,712	239,923	2,894,634	346,186
Income tax refunds payable (Note 16)	681,916	-	681,916	-
Amounts due to component units	77,998	-	77,998	27,700
Amounts due to primary government	-	-	-	5,097
Amounts due to federal government	-	-	-	137
Bonds and notes payable (Notes 13 and 14)	477,300	-	477,300	1,064,669
Interest payable	131,093	-	131,093	107,826
Deferred revenue	126,184	740	126,924	74,473
Current portion of other long-term obligations (Note 15)	638,772	958	639,730	149,608
Total Current Liabilities	4,957,310	247,213	5,204,523	1,775,956
Advances from component units	474,205	-	474,205	-
Advances from federal government	-	362,400	362,400	-
Prize awards payable (Note 15)	-	220,001	220,001	-
Deferred revenue	15,833	-	15,833	4,385
Bonds and notes payable (Notes 13 and 14)	7,641,321	-	7,641,321	9,360,594
Noncurrent portion of other long-term obligations (Note 15)	2,083,115	57,855	2,140,970	1,650,299
Total Liabilities	\$ 15,171,785	\$ 887,469	\$ 16,059,254	\$ 12,791,234

The accompanying notes are an integral part of the financial statements.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 15,909,317	\$ 807	\$ 15,910,124	\$ 1,956,960
Restricted For:				
Education	496,173	-	496,173	206,595
Construction and debt service	-	-	-	354,391
Public safety and corrections	17,938	-	17,938	-
Conservation, environment, recreation, and agriculture	368,866	-	368,866	-
Health and human services	50,070	-	50,070	-
Transportation	766,873	-	766,873	-
Unemployment compensation	-	35,899	35,899	-
Labor and economic growth	99,905	-	99,905	-
Other purposes	102,441	36,772	139,213	2,048,066
Funds Held as Permanent Investments:				
Expendable	132,581	-	132,581	61,049
Nonexpendable	564,915	-	564,915	248,176
Unrestricted	(2,788,445)	(121,773)	(2,910,218)	1,403,414
Total Net Assets	<u>\$ 15,720,632</u>	<u>\$ (48,294)</u>	<u>\$ 15,672,338</u>	<u>\$ 6,278,651</u>

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 1,671,941	\$ 590,493	\$ 63,538	\$ 9,686
Education	15,080,883	6,616	1,538,299	-
Human services	4,699,046	57,963	3,168,929	-
Public safety and corrections	2,895,133	168,789	161,140	-
Conservation, environment, recreation, and agriculture	572,755	282,008	114,160	4,111
Labor, commerce, and regulatory	995,714	304,145	624,264	-
Health services	11,622,966	79,683	6,768,236	-
Transportation	3,235,394	72,651	524,971	705,722
Tax expenditures (Note 16)	931,600	-	-	-
Intergovernmental-revenue sharing	1,076,445	-	-	-
Interest on long-term debt	387,800	-	-	-
Total governmental activities	43,169,677	1,562,346	12,963,536	719,518
Business-type Activities:				
Liquor Purchase Revolving Fund	621,991	768,085	-	-
State Lottery Fund	1,636,858	2,351,082	43,035	-
Attorney Discipline System	4,976	4,885	-	-
Michigan Unemployment Compensation Funds	2,403,043	1,998,292	1,227	-
Total business-type activities	4,666,868	5,122,344	44,262	-
Total primary government	\$ 47,836,545	\$ 6,684,690	\$ 13,007,799	\$ 719,518
<b>Component Units:</b>				
Authorities:				
Michigan Education Trust	\$ 47,437	\$ 156	\$ (61,190)	\$ -
Michigan State Housing Development Authority	646,305	181,217	458,951	-
Michigan Municipal Bond Authority	220,950	147,452	185,764	-
Non-Major	577,785	170,409	278,411	-
State Universities:				
Central Michigan University	356,330	250,970	17,628	2,078
Western Michigan University	516,109	279,593	19,636	7,107
Non-Major	1,549,599	935,807	142,518	18,395
Total component units	\$ 3,914,515	\$ 1,965,604	\$ 1,041,718	\$ 27,580
General Revenues:				
Taxes:				
General:				
Sales and use				
Personal income				
Single business and Michigan business				
Other				
Restricted For Educational Purposes:				
Sales and use				
Personal income				
Michigan business				
Education, property, and real estate transfers				
Other				
Restricted For Transportation Purposes:				
Sales and use				
Gasoline and diesel fuel				
Motor vehicle weight				
Other				
Unrestricted investment and interest earnings				
Miscellaneous				
Contributions to permanent fund principal				
Payments from State of Michigan				
Transfers				
Total general and other revenue, payments, and transfers				
Change in net assets				
Net assets-beginning-restated				
Net assets-ending				

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (1,008,225)	\$ -	\$ (1,008,225)	\$ -
(13,535,969)	-	(13,535,969)	-
(1,472,155)	-	(1,472,155)	-
(2,565,204)	-	(2,565,204)	-
(172,476)	-	(172,476)	-
(67,305)	-	(67,305)	-
(4,775,047)	-	(4,775,047)	-
(1,932,051)	-	(1,932,051)	-
(931,600)	-	(931,600)	-
(1,076,445)	-	(1,076,445)	-
(387,800)	-	(387,800)	-
(27,924,276)	-	(27,924,276)	-
-	146,094	146,094	-
-	757,259	757,259	-
-	(91)	(91)	-
-	(403,524)	(403,524)	-
-	499,738	499,738	-
(27,924,276)	499,738	(27,424,538)	-
-	-	-	(108,470)
-	-	-	(6,137)
-	-	-	112,265
-	-	-	(128,965)
-	-	-	(85,654)
-	-	-	(209,772)
-	-	-	(452,879)
-	-	-	(879,612)
2,701,052	-	2,701,052	-
6,229,339	-	6,229,339	-
1,715,861	-	1,715,861	-
2,516,526	13,663	2,530,189	-
5,424,253	-	5,424,253	-
2,174,393	-	2,174,393	-
341,000	-	341,000	-
2,266,377	-	2,266,377	-
678,157	-	678,157	-
82,114	-	82,114	-
992,502	-	992,502	-
854,736	-	854,736	-
5,675	-	5,675	-
7,595	2,192	9,787	54,703
865,407	-	865,407	191,881
57,937	-	57,937	-
-	-	-	769,580
927,763	(927,763)	-	-
27,840,688	(911,909)	26,928,780	1,016,164
(83,588)	(412,171)	(495,759)	136,552
15,804,220	363,877	16,168,096	6,142,099
\$ 15,720,632	\$ (48,294)	\$ 15,672,338	\$ 6,278,651





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**GOVERNMENTAL FUND FINANCIAL STATEMENTS****Major Funds****GENERAL FUND**

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

**COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND**

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by Michigan Compiled Laws Section 18.1351 to assist in stabilizing revenue during periods of economic recession. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note 3.

**SCHOOL AID FUND**

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools and the intermediate school districts of the State. School aid payments to school districts are based on a statutory formula. Michigan Compiled Laws Section 388.1611a, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

**Non-Major Funds**

Non-major governmental funds are presented, by fund type, beginning on page 108.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2008

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 7,107	\$ -	\$ -	\$ 859	\$ 7,966
Equity in common cash (Note 5)	-	2,156	-	1,289,642	1,291,797
Taxes, interest, and penalties receivable (Note 6)	2,890,289	-	2,214,040	96,354	5,200,682
Amounts due from other funds (Note 18)	991,646	-	11,735	532,686	1,536,067
Amounts due from component units	2,122	-	-	1,520	3,642
Amounts due from federal agencies	799,050	-	48,881	200,025	1,047,956
Amounts due from local units	47,966	-	47,613	169,783	265,362
Inventories	17,226	-	-	5,792	23,018
Investments (Note 8)	-	-	-	311,463	311,463
Other current assets	292,161	-	97	245,681	537,940
Total Current Assets	5,047,567	2,156	2,322,366	2,853,806	10,225,895
Taxes, interest, and penalties receivable (Note 6)	253,346	-	66,730	5,819	325,895
Advances to other funds (Note 18)	7,548	-	-	-	7,548
Amounts due from federal agencies	4,061	-	-	-	4,061
Amounts due from local units	883,583	-	4,208	50,775	938,566
Investments (Note 8)	-	-	-	667,164	667,164
Other noncurrent assets	4,853	-	-	5,519	10,372
Total Assets	\$ 6,200,958	\$ 2,156	\$ 2,393,305	\$ 3,583,083	\$ 12,179,501
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Warrants outstanding	\$ 160,591	\$ -	\$ 695	\$ 7,441	\$ 168,726
Accounts payable and other liabilities (Note 23)	1,659,556	-	155,948	683,474	2,498,977
Income tax refunds payable (Note 16)	681,916	-	-	-	681,916
Amounts due to other funds (Note 18)	47,600	-	1,444,626	83,967	1,576,193
Amounts due to component units	2,639	-	-	-	2,639
Bonds and notes payable	-	-	-	210,310	210,310
Interest payable	-	-	-	457	457
Deferred revenue	1,453,908	-	470,711	226,705	2,151,324
Total Current Liabilities	4,006,210	-	2,071,979	1,212,354	7,290,543
Long-Term Liabilities:					
Advances from component units	474,205	-	-	-	474,205
Deferred revenue	429,569	-	66,730	10,662	506,961
Total Liabilities	4,909,984	-	2,138,710	1,223,016	8,271,709
Fund Balances:					
Reserved fund balance (Note 22)	833,104	-	254,595	1,714,186	2,801,885
Unreserved fund balance reported in:					
General Fund	457,870	-	-	-	457,870
Special revenue funds	-	2,156	-	609,292	611,448
Debt service funds	-	-	-	220,517	220,517
Capital projects funds	-	-	-	(238,718)	(238,718)
Permanent funds	-	-	-	54,791	54,791
Total Fund Balances	1,290,974	2,156	254,595	2,360,067	3,907,792
Total Liabilities and Fund Balances	\$ 6,200,958	\$ 2,156	\$ 2,393,305	\$ 3,583,083	\$ 12,179,501

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2008

(In Thousands)

Total fund balances for governmental funds \$ 3,907,792

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,370,987	
Buildings, equipment, and other depreciable assets	4,401,550	
Infrastructure	12,636,941	
Construction in progress	1,152,866	
Interest in joint ventures	32,856	
Accumulated depreciation	(1,954,668)	19,640,533

Certain tax revenues are earned but not available and therefore are not  
reported in the funds. 2,190,521

Other long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds. 375,356

Amounts due to component units for long-term loans. (75,359)

Internal service funds are used by management to charge the costs of  
certain activities, such as insurance and telecommunications, to  
individual funds. The assets and liabilities of the internal service funds  
are included in governmental activities in the Statement of Net Assets. 169,845

Certain pension trust funds have been funded in excess of the annual  
required contributions, creating a year-end asset. This asset is not a  
current available resource and is not reported in the funds. (Note 10) 990

Deferred issue costs are reported as current expenditures in the funds.  
However, deferred issue costs are amortized over the life of the bonds  
and are included in the governmental activities in the Statement of Net  
Assets. 44,544

Recoveries of prior year expenditures related to long-term liabilities. 53,909

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the funds. (Note 15)

Capital lease obligations	(313,165)	
Compensated absences	(467,699)	
Workers' compensation	(111,536)	
Litigation	(505,644)	
Net pension obligations	(537,353)	
Net other post employment benefits	(609,482)	
Other long-term liabilities	(3,676)	(2,548,553)

Long-term bonded debt is not due and payable in the current period and  
therefore is not reported in the funds. Unamortized premiums, loss on  
refundings, and interest payable are not reported in the funds. However,  
these amounts are included in the Statement of Net Assets. This is the  
net effect of these balances on the statement. (Note 13)

Bonds and notes payable	(8,214,803)	
Unamortized premiums	(278,555)	
Less unamortized discounts	474,193	
Less deferred loss amount on refundings	110,853	
Accrued interest payable	(130,636)	(8,038,947)

Net assets of governmental activities \$ 15,720,632

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
<b>REVENUES</b>					
Taxes	\$ 13,370,761	\$ -	\$ 10,772,286	\$ 1,932,088	\$ 26,075,135
From federal agencies	10,731,491	-	1,377,664	1,323,483	13,432,638
From local agencies	113,572	-	-	12,978	126,550
From services	287,790	-	-	3,590	291,380
From licenses and permits	284,382	-	-	157,024	441,407
Special Medicaid reimbursements	115,797	-	-	-	115,797
Miscellaneous	758,947	66	30,864	863,183	1,653,059
Total Revenues	25,662,741	66	12,180,814	4,292,346	42,135,966
<b>EXPENDITURES</b>					
Current:					
General government	1,285,127	-	-	270,824	1,555,951
Education	2,155,080	-	12,786,351	158,160	15,099,591
Human services	4,590,802	-	-	18,679	4,609,481
Public safety and corrections	2,614,586	-	-	2,462	2,617,048
Conservation, environment, recreation, and agriculture	341,488	-	-	255,778	597,267
Labor, commerce, and regulatory	772,305	-	-	193,786	966,091
Health services	11,518,307	-	-	69,900	11,588,207
Transportation	-	-	-	2,338,907	2,338,907
Tax expenditures (Note 16)	931,600	-	-	-	931,600
Capital outlay	16,187	-	-	1,212,915	1,229,102
Intergovernmental-revenue sharing	1,076,445	-	-	-	1,076,445
Debt service:					
Bond principal retirement	-	-	-	238,371	238,371
Bond interest and fiscal charges	-	-	-	339,237	339,237
Capital lease payments	48,686	-	-	1,490	50,176
Total Expenditures	25,350,613	-	12,786,351	5,100,510	43,237,473
Excess of Revenues over (under) Expenditures	312,128	66	(605,537)	(808,164)	(1,101,507)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds and notes issued	-	-	-	185,242	185,242
Refunding bonds issued	-	-	-	347,446	347,446
Premium on bond issuance	-	-	-	16,811	16,811
Discount on bond issuance	-	-	-	(3,309)	(3,309)
Payment to refunded bond escrow agent	-	-	-	(361,879)	(361,879)
Capital lease acquisitions	106,248	-	-	4,590	110,838
Proceeds from sale of capital assets	27,381	-	-	3,124	30,505
Transfers from other funds (Note 20)	279,738	-	769,969	1,774,781	2,824,489
Transfers to other funds (Note 20)	(416,549)	-	(3,833)	(1,496,465)	(1,916,847)
Total Other Financing Sources (Uses)	(3,182)	-	766,136	470,342	1,233,296
Net changes in fund balances	308,946	66	160,599	(337,823)	131,789
Fund Balances - Beginning of fiscal year	982,028	2,090	93,996	2,697,890	3,776,004
Fund Balances - End of fiscal year	\$ 1,290,974	\$ 2,156	\$ 254,595	\$ 2,360,067	\$ 3,907,792

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

Net change in fund balance - total governmental funds \$ 131,789

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.  
(Note 9)

Land and other non-depreciable assets	108,258	
Buildings, equipment, and other depreciable assets	42,963	
Infrastructure additions	100,220	
Construction in progress	144,083	
Gain on disposal of capital assets	30,505	
Accumulated depreciation	<u>(136,520)</u>	289,509

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. 15,886

Amount due to component units for long-term loans are not reported in the funds as they are not due and payable. (7,824)

Increase in equity interest in joint ventures. (Note 7) 422

Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (84,961)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 37,267

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 13)

Bond proceeds and premiums received	(549,499)	
Repayment of bond principal	238,371	
Payment to refunded bond escrow agent	361,879	
Discount on bond issuances	3,309	
Accrued interest and amortization	(19,667)	
Deferred issue costs	<u>4,793</u>	39,186

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.  
(Note 15)

Net pension obligation	50,188	
Net other postemployment benefit obligation	(609,482)	
Capital lease payments	17,580	
Compensated absences payments	6,553	
Litigation recoveries, settlements and payments	22,384	
Workers' compensation	1,360	
Other	<u>6,557</u>	(504,861)

Change in net assets of governmental activities \$ (83,588)

The accompanying notes are an integral part of the financial statements.



## PROPRIETARY FUND FINANCIAL STATEMENTS



### Major Funds

#### STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1991. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net assets balance represents the unrealized cumulative gain or loss on investments, as required by GASB Statement No. 31.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

#### MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Unemployment Insurance Agency within the Department of Labor and Economic Growth: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by Michigan Compiled Laws (MCL) Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. MCL Section 421.10 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

### Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 170.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 174.

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
 SEPTEMBER 30, 2008  
 (In Thousands)

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 7,417	\$ 893	\$ 8,312	\$ 496
Equity in common cash (Note 5)	3,508	2,886	55,057	61,451	234,679
Amounts due from other funds (Note 18)	-	7,581	-	7,581	22,412
Amounts due from component units	-	341	-	341	154
Amounts due from federal agencies	-	17,712	-	17,712	-
Amounts due from local units	-	31,403	-	31,403	-
Inventories	3,851	-	8,773	12,624	15,717
Investments (Note 8)	69,508	35,289	4,364	109,162	-
Other current assets	75,846	253,524	4,829	334,199	19,375
Total Current Assets	152,715	356,153	73,915	582,784	292,834
Investments (Note 8)	251,479	-	-	251,479	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	4,194	-	371	4,565	709,419
Allowance for depreciation	(3,405)	-	(353)	(3,758)	(487,102)
Total capital assets	790	-	17	807	231,487
Other noncurrent assets	-	23,300	-	23,300	2,650
Total Assets	\$ 404,984	\$ 379,453	\$ 73,933	\$ 858,370	\$ 526,971
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 1,937	\$ -	\$ 3,656	\$ 5,593	\$ 609
Accounts payable and other liabilities (Note 23)	132,230	44,509	62,984	239,723	119,669
Amounts due to other funds (Note 18)	11,898	7,355	142	19,394	6,356
Deferred revenue	-	345	395	740	49,610
Current portion of other long-term obligations (Note 15)	638	-	319	958	62,140
Total Current Liabilities	146,703	52,209	67,496	266,408	238,384
Long-Term Liabilities:					
Advances from other funds (Note 18)	-	-	-	-	7,548
Advances from federal government	-	362,400	-	362,400	-
Prize awards payable	220,001	-	-	220,001	-
Noncurrent portion of other long-term obligations (Note 15)	1,508	55,203	1,144	57,855	111,193
Total Liabilities	368,212	469,812	68,640	906,664	357,126
NET ASSETS					
Invested in capital assets, net of related debt	\$ 790	\$ -	\$ 17	\$ 807	\$ 223,910
Restricted For:					
Unemployment compensation	-	35,899	-	35,899	-
Other purposes	36,772	-	-	36,772	4,026
Unrestricted	(790)	(126,259)	5,275	(121,773)	(58,091)
Total Net Assets	\$ 36,772	\$ (90,359)	\$ 5,293	\$ (48,294)	\$ 169,845

The accompanying notes are an integral part of the financial statements.



## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

## PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
<b>OPERATING REVENUES</b>					
Operating revenues	\$ 2,351,082	\$ 1,998,292	\$ 772,970	\$ 5,122,344	\$ 1,399,957
Total Operating Revenues	2,351,082	1,998,292	772,970	5,122,344	1,399,957
<b>OPERATING EXPENSES</b>					
Salaries, wages, and other administrative	282,421	3	64,489	346,913	521,168
Interest expense	-	-	-	-	1
Depreciation	134	-	9	143	47,770
Purchases for resale	-	-	561,269	561,269	82,328
Purchases for prison industries	-	-	-	-	17,826
Lottery prize awards	1,323,341	-	-	1,323,341	-
Premiums and claims	-	-	38	38	659,085
Unemployment benefits	-	2,063,969	-	2,063,969	-
Other operating expenses	-	324,624	1,161	325,785	50,264
Total Operating Expenses	1,605,896	2,388,596	626,967	4,621,458	1,378,441
Operating Income (Loss)	745,186	(390,303)	146,003	500,885	21,516
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Specific tax on spirits	-	-	13,663	13,663	-
Interest revenue	3,063	-	2,192	5,255	-
Investment revenue (expense) - net	39,972	1,227	-	41,199	-
Other nonoperating revenues	-	-	-	-	3,629
Amortization of prize award obligation discount	(20,700)	-	-	(20,700)	-
Interest expense	(10,262)	(14,448)	-	(24,709)	(624)
Other nonoperating expense	-	-	-	-	(13)
Total Nonoperating Revenues (Expenses)	12,073	(13,221)	15,854	14,707	2,992
Income (Loss) Before Transfers	757,259	(403,524)	161,857	515,592	24,508
<b>TRANSFERS</b>					
Transfers from other funds	-	-	-	-	14,093
Transfers To:					
School Aid Fund	(740,735)	-	-	(740,735)	-
Other funds	(11,628)	(13,670)	(161,730)	(187,028)	(1,333)
Total transfers to other funds	(752,364)	(13,670)	(161,730)	(927,763)	(1,333)
Change in net assets	4,895	(417,194)	127	(412,171)	37,267
Total net assets - Beginning of fiscal year - restated	31,877	326,834	5,165	363,877	132,578
Total net assets - End of fiscal year	\$ 36,772	\$ (90,359)	\$ 5,293	\$ (48,294)	\$ 169,845

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR		NON-MAJOR	TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from federal and local agencies	\$ -	\$ 308,568	\$ -	\$ 308,568	\$ -
Receipts from customers	2,341,730	1,611,452	768,085	4,721,266	1,435,285
Membership dues	-	-	4,629	4,629	-
Payments to employees	(15,195)	-	(16,970)	(32,165)	(204,644)
Payments to suppliers	(51,559)	-	(613,674)	(665,233)	(639,894)
Payments to prize winners	(1,391,666)	-	-	(1,391,666)	-
Payments for commissions to retailers	(215,860)	-	-	(215,860)	-
Claims paid	-	(2,369,584)	-	(2,369,584)	(426,913)
Other receipts	-	33,916	227	34,143	178
Other payments	-	(3)	(1,597)	(1,600)	(8,114)
Net cash provided (used) by operating activities	\$ 667,450	\$ (415,652)	\$ 140,699	\$ 392,497	\$ 155,897
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Advances from federal government	\$ -	\$ 1,079,400	\$ -	\$ 1,079,400	\$ -
Advance repayments to federal government	-	(717,000)	-	(717,000)	-
Interest paid	-	(10,812)	-	(10,812)	-
Loans or loan repayments from other funds	-	-	-	-	5,407
Loans or loan repayments to other funds	-	-	-	-	(14,152)
Specific tax on spirits	-	-	13,663	13,663	-
Transfers from other funds	-	-	-	-	14,093
Transfers to other funds	(751,529)	(13,683)	(161,730)	(926,942)	(1,333)
Net cash provided (used) by noncapital financing activities	\$ (751,529)	\$ 337,905	\$ (148,067)	\$ (561,691)	\$ 4,015
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	\$ (583)	\$ -	\$ -	\$ (583)	\$ (67,756)
Interest paid	-	-	-	-	(252)
Capital lease payments (including imputed interest expense)	-	-	-	-	(3,000)
Proceeds from sale of capital assets	-	-	-	-	64
Net cash provided (used) by capital and related financing activities	\$ (583)	\$ -	\$ -	\$ (583)	\$ (70,944)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investment securities	\$ 76,870	\$ 68,340	\$ -	\$ 145,210	\$ -
Purchases of investment securities	-	-	(1,088)	(1,088)	-
Interest and dividends on investments	3,063	1,227	2,192	6,482	3,521
Income from securities lending activities	13,009	-	-	13,009	-
Expenses from securities lending activities	(10,262)	-	-	(10,262)	-
Net cash provided (used) by investing activities	\$ 82,680	\$ 69,566	\$ 1,104	\$ 153,350	\$ 3,521
Net cash provided (used) - all activities	\$ (1,981)	\$ (8,180)	\$ (6,264)	\$ (16,426)	\$ 92,489
Cash and cash equivalents at beginning of year - restated	3,555	18,483	58,558	80,596	142,078
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,573</u>	<u>\$ 10,303</u>	<u>\$ 52,293</u>	<u>\$ 64,170</u>	<u>\$ 234,566</u>

The accompanying notes are an integral part of the financial statements.

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 7,417	\$ 893	\$ 8,312	\$ 496
Equity in common cash	3,508	2,886	55,057	61,451	234,679
Warrants outstanding	(1,937)	-	(3,656)	(5,593)	(609)
Cash and cash equivalents at end of year	<u>\$ 1,573</u>	<u>\$ 10,303</u>	<u>\$ 52,293</u>	<u>\$ 64,170</u>	<u>\$ 234,566</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 745,186	\$ (390,303)	\$ 146,003	\$ 500,885	\$ 21,516
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	134	-	9	143	47,770
Amortization of prize award obligation discount	(20,700)	-	-	(20,700)	-
Other reconciling items	120	-	-	120	4
Net Changes in Assets and Liabilities:					
Inventories	198	-	(4,361)	(4,163)	2,088
Other assets (net)	(9,352)	(53,489)	4,327	(58,514)	775
Accounts payable and other liabilities	(511)	28,134	(5,205)	22,418	83,745
Prize awards payable	(47,624)	-	-	(47,624)	-
Deferred revenue	-	7	(74)	(67)	-
Net cash provided (used) by operating activities	<u>\$ 667,450</u>	<u>\$ (415,652)</u>	<u>\$ 140,699</u>	<u>\$ 392,497</u>	<u>\$ 155,897</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>					
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 4,990
Capital lease liabilities entered into during the year	-	-	-	-	(4,990)
Increase (decrease) in fair value of investments	4,895	-	-	4,895	-
Transfers to other funds (accrual)	(11,735)	(993)	-	(12,728)	-
Gain (loss) on disposal of capital assets	-	3,636	-	3,636	(11)
Total noncash investing, capital, and financing activities	<u>\$ (6,840)</u>	<u>\$ 2,643</u>	<u>\$ -</u>	<u>\$ (4,197)</u>	<u>\$ (11)</u>



## FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:  
Pension (and Other Employee Benefit) Trust Funds, page 182.  
Private Purpose Trust Funds, page 190.  
Agency Funds, page 193.

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2008**  
(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
<b>ASSETS</b>			
Cash	\$ 23	\$ 1,685	\$ 54,759
Equity in common cash (Note 5)	834,484	92,964	5,608
Receivables:			
From participants	220,976	-	-
From employers	511,828	-	-
Other	463	-	-
Interest and dividends	1,392	2,221	-
Due from other funds (Note 18)	36,268	-	-
Due from component unit	325	-	-
Due from other governmental	4,026	-	-
Sale of investments	337	-	-
Investments at Fair Value (Note 8):			
Short term investments	425,922	-	6,866
Bonds, notes, mortgages, and preferred stock	9,056,471	17,391	-
Common stock	22,331,713	216	-
Real estate	5,854,736	-	-
Alternative investments	9,791,534	-	-
International investments	4,717,714	-	-
Mutual funds	1,859,094	1,647,688	-
Pooled investment funds	2,076,286	-	-
Money market funds	336,624	-	-
Guaranteed funding agreements	-	188,282	-
Securities lending collateral (Note 8)	6,847,491	-	-
Other current assets	-	9,014	219
Other noncurrent assets	-	700	380,831
Total assets	\$ 64,907,705	\$ 1,960,160	\$ 448,283
<b>LIABILITIES</b>			
Warrants outstanding	\$ 8,632	\$ 2,112	\$ 273
Accounts payable and other liabilities	322,365	6,210	66,799
Amounts due to other funds (Note 18)	4	-	381
Obligations under security lending	8,935,229	-	-
Other long-term liabilities	-	-	380,831
Total liabilities	\$ 9,266,228	\$ 8,321	\$ 448,283
<b>NET ASSETS</b>			
Net assets held in trust for pension, postemployment health-care, deferred compensation participants, and other purposes	\$ 55,641,476	\$ 1,951,839	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 51,191,131	\$ -	
Postemployment health-care benefits (Note 11)	886,531	-	
Deferred compensation participants (Note 17)	3,563,814	-	
Other purposes	-	1,951,839	
Total net assets held in trust for benefits and other purposes	\$ 55,641,476	\$ 1,951,839	

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

## FIDUCIARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
<b>ADDITIONS</b>		
Contributions:		
From participants	\$ 728,280	\$ 363,026
From employers	2,495,381	-
From clients	-	65,206
From gifts, bequests, and endowments	-	23,473
From other plans	761	-
From other governmental	23,537	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(11,736,002)	(337,882)
Interest, dividends, and other	1,488,553	97,207
Securities lending income	406,386	227
Less Investment Expense:		
Investment activity expense	126,426	-
Securities lending expense	345,355	200
Net investment income (loss)	(10,312,844)	(240,648)
Escheated property	-	60,794
Miscellaneous income	6,106	302
Transfers from other funds	7,450	-
Total Additions	(7,051,329)	272,152
<b>DEDUCTIONS</b>		
Benefits paid to participants or beneficiaries	4,368,921	112,774
Medical, dental, and life insurance for retirees	1,079,075	-
Refunds and transfers to other systems	72,564	-
Amounts distributed to clients, claimants, or third parties	-	152,977
Administrative expense	128,199	6,356
Transfers to other funds	88	-
Total Deductions	5,648,846	272,107
Net increase (decrease)	(12,700,175)	45
Net assets - Beginning of fiscal year - restated	68,341,652	1,951,794
Net assets - End of fiscal year	\$ 55,641,476	\$ 1,951,839
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ (12,059,501)	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	11,999	-
Net increase (decrease) in assets held in trust for deferred compensation participants	(652,673)	-
Net increase (decrease) in assets held in trust for other purposes	-	45
Total net increase (decrease)	\$ (12,700,175)	\$ 45

The accompanying notes are an integral part of the financial statements.





## COMPONENT UNIT FINANCIAL STATEMENTS



### Major Funds

#### MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Michigan Compiled Laws Section 390.1425, the Michigan Education Trust Act, created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the law provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the law. The law and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

#### MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Michigan Compiled Laws Section 125.1421 created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

#### MICHIGAN MUNICIPAL BOND AUTHORITY

Michigan Compiled Laws Section 141.1054 created the Michigan Municipal Bond Authority (MMBA) to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. MMBA pools the borrowing needs of various units and issues limited obligation debt, the proceeds of which are used to purchase local unit obligations or to make loans to local units.

MMBA is governed by a board of trustees consisting of the State Treasurer, two appointees of the Governor, and four state residents appointed by the Governor, with the advice and consent of the Senate.

MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Federal government and State matching provides financing for this activity along with investment interest earnings and/or other available funds. MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

#### CENTRAL MICHIGAN UNIVERSITY AND WESTERN MICHIGAN UNIVERSITY

Central Michigan University and Western Michigan University are the two major universities of the ten universities included in this report. They are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore, defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

### Non-Major Funds

The non-major component unit - authorities are presented beginning on page 198.

The non-major component unit - State universities are presented beginning on page 206.

## STATEMENT OF NET ASSETS

## COMPONENT UNITS

SEPTEMBER 30, 2008

(In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 244,854	\$ 350,465	\$ 12	\$ 145,024
Equity in common cash (Note 5)	-	-	68,293	50,672
Amounts due from component units	-	-	-	27,699
Amounts due from primary government	2,551	-	2,086	6,426
Amounts due from federal government	-	-	-	15,590
Amounts due from local units	-	-	975,274	16,607
Inventories	-	-	-	634
Investments (Note 8)	-	210,199	955,988	95,124
Other current assets	21,950	63,292	499	352,968
Total Current Assets	269,355	623,956	2,002,153	710,744
Restricted Assets:				
Cash and cash equivalents	-	-	-	6,656
Investments	-	-	-	2,479
Mortgages and loans receivable	-	-	-	-
Advances to primary government	-	-	558,234	-
Amounts due from local units	-	-	2,744,959	-
Mortgages and loans receivable	-	2,309,994	-	2,046,938
Investments (Note 8)	608,457	580,650	1,029,188	72,003
Capital Assets (Note 9):				
Land and other non-depreciable assets	-	-	-	13,002
Buildings, equipment, and other depreciable assets	-	-	-	61,377
Less accumulated depreciation	-	-	-	(33,285)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	-	-	-	143,815
Other noncurrent assets	47,362	59,428	104,969	96,150
Total Assets	\$ 925,174	\$ 3,574,028	\$ 6,439,503	\$ 3,078,786
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 260
Accounts payable and other liabilities	5	38,941	4,803	40,347
Amounts due to component units	-	-	-	27,700
Amounts due to primary government	-	-	219	2,439
Amounts due to federal government	-	-	-	137
Bonds and notes payable (Note 14)	-	59,246	883,010	82,223
Interest payable	-	14,096	75,589	10,917
Deferred revenue	-	-	3,366	3,416
Current portion of other long-term obligations	124,008	-	-	6,553
Total Current Liabilities	124,012	112,283	966,988	173,992
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 14)	-	2,337,725	3,463,865	2,302,534
Noncurrent portion of other long-term obligations	898,662	443,594	37,178	43,435
Total Liabilities	\$ 1,022,674	\$ 2,893,602	\$ 4,468,031	\$ 2,519,962
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 142,776
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	295,132	-	17,381
Other purposes	-	-	1,958,766	24,542
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	(97,500)	385,295	12,706	374,125
Total Net Assets	\$ (97,500)	\$ 680,426	\$ 1,971,472	\$ 558,824

The accompanying notes are an integral part of the financial statements.

## STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 17,166	\$ 36,759	\$ 242,545	\$ 1,036,826
-	-	-	118,965
-	-	18	27,717
54,835	10,193	115,654	191,746
923	1,943	12,371	30,828
-	134	185	992,200
5,465	5,126	11,449	22,675
-	8,025	136,481	1,405,816
17,873	29,679	59,274	545,534
<u>96,263</u>	<u>91,859</u>	<u>577,977</u>	<u>4,372,308</u>
5	-	19,986	26,647
48,288	185,421	193,304	429,492
8,691	-	41,255	49,946
-	-	-	558,234
-	-	-	2,744,959
-	10,010	24,250	4,391,192
181,698	57,595	367,792	2,897,382
11,061	14,252	81,297	119,612
613,020	1,010,788	3,045,008	4,730,194
(269,018)	(366,980)	(1,179,948)	(1,849,231)
-	-	-	102,722
27,217	10,294	98,950	136,462
<u>382,280</u>	<u>668,354</u>	<u>2,045,307</u>	<u>3,239,757</u>
-	14,968	37,091	359,968
<u>\$ 717,226</u>	<u>\$ 1,028,207</u>	<u>\$ 3,306,961</u>	<u>\$ 19,069,885</u>
\$ -	\$ -	\$ -	\$ 260
55,761	44,011	162,318	346,186
-	-	-	27,700
473	35	1,930	5,097
-	-	-	137
6,585	6,240	27,365	1,064,669
1,551	1,972	3,701	107,826
11,698	8,068	47,925	74,473
-	6,132	12,916	149,608
<u>76,068</u>	<u>66,457</u>	<u>256,156</u>	<u>1,775,956</u>
-	-	4,385	4,385
165,742	277,955	812,773	9,360,594
17,936	137,460	72,035	1,650,299
<u>\$ 259,745</u>	<u>\$ 481,872</u>	<u>\$ 1,145,349</u>	<u>\$ 12,791,234</u>
\$ 209,953	\$ 373,754	\$ 1,230,476	\$ 1,956,960
56,615	9,554	140,426	206,595
3,897	-	37,981	354,391
-	34,284	30,475	2,048,066
-	-	61,049	61,049
-	64,391	183,785	248,176
187,016	64,352	477,419	1,403,414
<u>\$ 457,481</u>	<u>\$ 546,335</u>	<u>\$ 2,161,612</u>	<u>\$ 6,278,651</u>

## STATEMENT OF ACTIVITIES

## COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2008

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Education Trust	\$ 47,437	\$ 156	\$ (61,190)	\$ -	\$ (108,470)
Michigan State Housing Development Authority	646,305	181,217	458,951	-	(6,137)
Michigan Municipal Bond Authority	220,950	147,452	185,764	-	112,265
Non-Major	577,785	170,409	278,411	-	(128,965)
State Universities:					
Central Michigan University	356,330	250,970	17,628	2,078	(85,654)
Western Michigan University	516,109	279,593	19,636	7,107	(209,772)
Non-Major	1,549,599	935,807	142,518	18,395	(452,879)
Total	<u>\$ 3,914,515</u>	<u>\$ 1,965,604</u>	<u>\$ 1,041,718</u>	<u>\$ 27,580</u>	<u>\$ (879,612)</u>

The accompanying notes are an integral part of the financial statements.

GENERAL REVENUES					
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATE	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ (108,470)	\$ 10,970	\$ (97,500)
34,259	-	-	28,122	652,304	680,426
-	-	-	112,265	1,859,207	1,971,472
10,020	123,667	45,900	50,623	508,202	558,824
(1,746)	92,087	13,239	17,926	439,554	457,481
(1,917)	130,610	54,999	(26,080)	572,416	546,335
14,087	423,216	77,742	62,166	2,099,446	2,161,612
<u>\$ 54,703</u>	<u>\$ 769,580</u>	<u>\$ 191,881</u>	<u>\$ 136,552</u>	<u>\$ 6,142,099</u>	<u>\$ 6,278,651</u>